

City of Walla Walla
Walla Walla County, Washington
January 1, 1993 Through December 31, 1993

Schedule Of Findings

1. Public Funds Were Misappropriated And Accounting Records Were Falsified

At the request of the city, we initiated a special examination of local improvements districts (LID). Our audit of the financial records of the City of Walla Walla revealed that at least \$563,035.19 in public funds was misappropriated by Daneen M. May, the city clerk/treasurer, during the period January 1, 1991, through July 12, 1994. Accounting records were falsified in an attempt to conceal a portion of these losses. This condition is a material weakness. There were no federal funds involved in this case.

On July 12, 1994, the accounting manager at the City of Walla Walla notified the Office of State Auditor of a potential misappropriation of LID cash receipts. The accounting manager had questioned Ms. May about the existence of certain LID payments. She subsequently admitted to misappropriating at least \$200,000 to \$300,000. The schedule below summarizes losses by calendar year.

<u>Calendar Year</u>	<u>Amount Misappropriated</u>
1994	\$ 89,721.79
1993	121,381.60
1992	183,321.21
1991	<u>168,610.59</u>
Total	<u><u>\$563,035.19</u></u>

These funds were misappropriated as described below.

- a. LID payments were not always receipted into the treasurer's receipt system by the city clerk/treasurer. Unrecorded LID check payments were then substituted for cash from other payments which had been receipted. While these checks were subsequently deposited in the city's bank account, a corresponding amount of cash was stolen.
- b. In some instances, either a portion or all of the cash receipts for a business day were stolen. This shortage was concealed as a deposit in transit on the monthly bank reconciliation. In certain instances, there were checks associated with these deposit shortages. These checks were converted to cash using a check for cash substitution scheme on subsequent business days. Finally, checks from unrecorded revenue transactions were used to make bank deposits which eliminated the related deposit in transit. However, this manipulation of funds and falsification of accounting records ultimately resulted in a loss to the city for the amount of the funds associated with the unrecorded revenue transactions.

Daneen M. May was the city clerk/treasurer during the period of these losses. In this capacity, she was responsible for all non-construction aspects of LID operations. She was also responsible for all facets of the treasury function.

When we discussed these irregularities with her, she admitted to misappropriating public funds from 1987 through July 1994. There were no records available which would permit ready identification and analysis of the amount of the loss for the period of 1987 through 1990. The city is confirming LID assessments due for that period and will assess the remaining portion of the loss. Ms. May was placed on administrative leave on July 12, 1994, and resigned effective July 15, 1994.

RCW 42.20.070 states:

Every public officer, and every other person receiving money on behalf or for or on account of the people of the state or of any department of the state government or of any bureau or fund created by law in which the people are directly or indirectly interested, or for or on account of any county, city, town or any school, diking, drainage, or irrigation district who)

(1) Shall appropriate to his or her own use or the use of any person not entitled thereto, without authority of law, any money so received by him or her as such officer or otherwise; or

(2) Shall knowingly keep any false account, or make any false entry or erasure in any account, of or relating to any money so received by him or her; or

(3) Shall fraudulently alter, falsify, conceal, destroy or obliterate any such account; or

(4) Shall wilfully omit or refuse to pay over to the state, its officer or agent authorized by law to receive the same, or to such county, city, town, or such school, diking, drainage or irrigation district or to the proper officer or authority empowered to demand and receive the same, any money received by him or her as such officer when it is a duty imposed upon him or her by law to pay over and account for the same,

shall be punished by imprisonment in a state correctional facility for not more than fifteen years.

The following internal control weaknesses in the city clerk/treasurer's office allowed the misappropriation to occur and not be detected in a timely manner.

- a. There was inadequate segregation of duties. All LID activity was the sole responsibility of one person, the city clerk/treasurer. These LID duties included, maintenance of assessment roles, billings, receipt of payments, property owner correspondence, delinquencies and foreclosure coordination with the city attorney. In addition, she was responsible for preparing all city bank deposit slips, physically transmitting the money to the bank and maintaining city checking accounts. There was no periodic management review of the work performed by the city clerk/treasurer which would have accomplished the same objective as a segregation of duties between two or more employees.

- b. LID delinquent accounts were not foreclosed upon. This condition was noted in our audit reports for the prior seven years.
- c. Cash receipts were not deposited intact daily. For example, during the first 6 months of calendar year 1994, deposits were delayed from 1 to 14 days. These delays allowed the city clerk/treasurer the opportunity to manipulate bank deposit records while they were in her possession.
- d. Mode of payment information (i.e., check or cash) was not required to be recorded on the cash receipt forms used in the cash receipting system. This condition was noted in our management letter for the 1991 audit. In addition, there was no reconciliation of mode of payment information for funds received by cashiers to mode of payment information for funds actually deposited into the bank.
- e. The bank reconciliation was not properly performed or reviewed. No one independent of the city clerk/treasurer followed up on changes in checkbook entries, or on recurring or increasing deposits in transit which were identified in bank account reconciliations. The check register and bank reconciliations were entered in pencil. As a result, these accounting records were easily changed and manipulated to conceal irregular practices and activities. In addition, there was no independent review of voided transactions.

We recommend the City of Walla Walla seek recovery of the misappropriated \$563,035.19 and related audit costs from Ms. May and the insurance bonding company. We further recommend the Washington State Office of the Attorney General and the Walla Walla County Prosecuting Attorney review this matter and take whatever action is deemed necessary under the circumstances. Any compromise or settlement of this claim must be approved in writing by the Attorney General and State Auditor as directed by RCW 43.09.260.

Bond coverage for the city clerk/treasurer is as follows:

Company:	Fidelity and Deposit Company of Maryland
Name:	Clerk/Treasurer's Official Bond
Amount:	\$50,000
Number:	30268202
Term:	June 30, 1989 to Present

We also recommend the city review overall accounting controls, correct the weaknesses outlined above, and implement an effective system of internal control designed to ensure the protection of city assets.

2. Municipal Court Procedures And Documentation Of Control Procedures Should Be Improved

At the request of the city, we initiated a review of the Municipal Court internal controls. Our audit found the following material internal control weaknesses:

- a. All employees work as cashiers and work out of the same cash drawer. (This condition was noted in the 1992 management letter.)
- b. As of August 3, 1994, checks totaling \$22,092 were found in unsecured areas of the court clerk's office. These checks were not restrictively endorsed and had not been recorded into the accounting system.
- c. Court staff have the ability to delete case files, which would also delete any accounting records for cash receipts received.

Adequate internal control systems require reasonable segregation of duties and control procedures. These controls should include:

- a. Segregate cashiering duties from case file maintenance.
- b. Provide a cash drawer for each cashier.
- c. Timely deposit all funds collected.

The Municipal Court administrator retired in January 1994. A new administrator has not been hired, nor has the court trained current staff to perform many of her duties. The city is in the process of conducting a second recruitment process to fill the position, having been unable to find a qualified candidate in the first recruitment process.

By not having an adequate internal control system, errors and irregularities could occur and not be detected in a timely manner.

We recommend that the municipal court develop and implement policies to ensure proper internal controls.

3. Municipal Court Should Properly Remit Fines And Penalties Collected

At the request of the city, we initiated a review of the cash handling practices at the Municipal Court. Our audit found that receipts have not been distributed to the city since March 1994. As a result, the court had accumulated approximately \$90,000 of receipts as of August 3, 1994.

RCW 3.46.120 requires that money received by the clerk of the municipal court be paid to the city treasurer and that the city treasurer remit monthly the state's share of those receipts.

The Municipal Court administrator retired in January 1994. A new administrator has not been hired, nor has the court trained current staff to perform many of her duties. The city is in the process of conducting a second recruitment process to fill the position, having been unable to find a qualified candidate in the first recruitment process.

By the court not remitting the fines and penalties on a monthly basis to the city, the city treasurer cannot remit the state share of the receipts, nor can the city use its share of the funds for operating expenses.

We recommend the court distribute the accumulated court receipts and establish procedures to distribute court receipts monthly. We further recommend that the Municipal Court hire a new court administrator or sufficiently train current staff.

4. Accounting Controls Over Fixed Assets Should Be Strengthened

City of Walla Walla does not have adequate internal accounting controls over its fixed assets. The following areas are of concern:

- a. A comprehensive physical count of fixed assets has not been taken nor have fixed assets been reconciled to detailed subsidiary ledgers.
- b. Detail asset listings do not exist that support the general ledger control accounts.

Without adequate accounting procedures, controls, and accurate detailed supporting records, the city lacks the ability to adequately safeguard its fixed assets.

The city has been unable to allocate adequate resources to do an inventory of fixed assets.

We recommend the City of Walla Walla:

- a. Inventory all fixed assets owned by the city and develop detailed fixed asset ledgers.
- b. Conduct timely physical inventories of fixed assets and reconcile any differences between the physical inventories and the city's fixed asset internal accounting record.

5. The Annual Report Should Be Prepared Accurately

The city's financial statements originally issued by the prior finance director to meet statutory reporting requirements contained several errors and omissions. These errors and omissions are as follows:

- Schedule A-1 - Funds 129, 141, 151, and 390 were not included in the Balance Sheet.
- Schedule B-1 - Funds 129, 141, and 151 were not included in the statements.
- Schedule C-1 - Funds 129, 141, and 151 were not included in statements.
- Schedule D-1 - Fund 390 was not included.
- Schedule E-1 - Fund 390 activity was not included.
- Schedule 10 - General Obligation debt was not correctly stated.
- Schedule 16 - CFDA numbers and activity were incorrectly reported.

The above errors and omissions were corrected, and the corrected statements are included in this report.

RCW 43.09.230 states in part:

The state auditor shall require from every taxing district and other political subdivisions financial reports covering the full period of each fiscal year, in accordance with the forms and methods prescribed by the state auditor, which shall be uniform for all accounts of the same class.

By not preparing accurate financial statements as required, the city impairs their usefulness to city administrators, taxpayers, and other interested parties.

The former finance director was responsible for preparing the financial statements. She resigned April 29, 1994, having prepared the financial statements as originally issued. It was our later review that discovered the originally issued report contained the listed errors.

We recommend the city provide staff to accurately prepare the financial statements in the future.

6. The City Should Reconcile Clearing Accounts In A Timely Manner

Our review of the operation of the City of Walla Walla clearing accounts found that the city does not reconcile the accounts in a timely manner.

A clearing account is designed to issue checks for expenditures of the city. Each fund reimburses the clearing accounts for the expenditures paid on their behalf. At all times the clearing account cash balance should equal a list of outstanding clearing account checks.

The former clerk/treasurer and the former finance director did not understand how to operate the clearing accounts, or the need for conducting timely reconciliations.

By not reconciling the clearing accounts in a timely manner, errors or irregularities may not be detected. The lack of timely reconciliations has caused the payroll clearing fund to have a \$127,941 deficit cash balance at December 31, 1993.

We recommend the city either reconcile the clearing accounts each month or the city discontinue the use of the clearing accounts altogether.

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Schedule Of Federal Findings

1. The City Staff Should Improve Procedures For Preparing Reimbursement Requests For Street Projects

Our audit of the City of Walla Walla found that the city requested and received reimbursement for engineering costs in excess of those actually incurred. Requesting reimbursement for costs in excess of those incurred is contrary to OMB Circular A-87.

OMB Circular A-87 states in part:

Total cost. The total cost of a Federal financial assistance program is comprised of the allowable direct cost of the program, plus its allocable portion of allowable indirect costs, less applicable credits.

The city requested reimbursement for excess costs because the city's accounting system does not have separate accounting codes for labor costs for both preliminary engineering costs and construction engineering costs. Labor costs for engineering are charged to one account code in the accounting records.

In addition, the department changed people responsible for preparing the reimbursement request during the project. The person that prepared the final reimbursement request did not realize that part of the expenditures coded to engineering costs had been claimed as preliminary engineering costs.

This has resulted in overbilling to the grantor of \$8,284.99. (See Schedule of Questioned Costs.)

We recommend that the city repay \$8,284.99 to the Washington State Department of Transportation. We further recommend that the city staff improve procedures of preparing reimbursement request for federally funded street grants. The improvements would include but not be limited to the following;

- Change the accounting system so preliminary and construction engineering costs have separate account codes and the amounts are separated on the accounting reports.
- When the reimbursement requests are prepared the staff should reconcile the total costs on the reimbursement requests to the total costs in the accounting records.

2. The City of Walla Walla Should Develop Procedures To Ensure That Federally Funded Contracts Are Not Awarded To Debarred Or Suspended Parties

Our audit revealed that the city does not have procedures to ensure that federally funded contracts are not awarded to ineligible contractors.

OMB Circular A-102, Subpart C, Section __.35 States:

Grantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or otherwise excluded from or ineligible for participation in federal assistance programs under Executive Order 12549, "Debarment and Suspension".

The city staff has not addressed the requirement because staff was not aware of its existence.

The lack of a policy and procedure for ensuring compliance with the requirement of no subawards to debarred or suspended parties could result in the city entering into a contract with a party that has been suspended from participation in federal programs. Any federally-funded payments made by the city to a suspended party would be questioned and potentially disallowed by the federal grantor agency.

We recommend that the city develop policies and procedures to ensure that contracts are not awarded to federally debarred or suspended parties.